A Marketing Guide

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- *Starting a Small Business in Nova Scotia*
- *How to Prepare a Business Plan*
- *Weathering Changes in the Business Climate*

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Introduction

Marketing is a general term given to all the processes and activities that generate sales for your business. It sounds simple: marketing is how you get your product or service into the hands of people who are ready to buy. The reality of marketing is not so simple. It is a weak area for many new small businesses.

The purpose of this guide is to provide basic marketing information to owners of small and medium-sized businesses. An effort has been made to avoid too much jargon and make the content clear to individuals who have not had extensive formal training in marketing.

What Is Marketing?

Marketing is not just selling and advertising — these are simply two key parts of the overall marketing mix. It involves much more! Essentially, marketing begins before the product exists and continues long after the customer is gone, interpreting all along the way what is happening in the marketplace and how you can improve the customer's experience.

Marketing includes the following elements:

- finding out what the market needs and wants, what consumers will buy, and when and how much they will pay for it
- designing products or services to meet those wants
- comparing other products and services available for sale to yours
- doing market research with potential customers (to test sales and profit potential of a business idea)
- presenting products and services in ways attractive to probable buyers
- developing a marketing strategy (a co-ordinated plan for different aspects of marketing)

Market Segments

Market segment sounds like something fancy, but it simply refers to the reality that not all customers are the same — that there are distinctly different market "groups" potentially available to your business, each of them having various unique characteristics. Segments can be defined in different ways, such as the following:

- geography — where customers live
- demographics — their age, income, family composition, education
- psycho-graphics — what their interests and tastes are, and why they buy

These distinctions are important, as they will affect what products will sell to which markets, and how and where they can be marketed. Often a particular market segment will be made up of a combination of the above factors, and all of them will have an impact on marketing issues.

What Is a Marketing Plan?

A marketing plan is a working document that identifies opportunities, sets achievable objectives for the future, usually a year, and lays out a list of action steps that will help you meet those objectives. Using the plan — working with it, referring to it regularly, adjusting it when necessary — can be highly effective in ensuring your marketing works for you.

A marketing plan is broad in scope and encompasses a number of topics. It answers the questions "Where are we going?" and "How do we get there?"

The plan should spell out clearly how you intend to grow your business. At the end of the year, you should be able to measure the results, evaluate the various elements, and determine what worked and what needs modifying for the next year. The results of each marketing plan will provide the foundation for the following year's plan.

This guide will help you to prepare your marketing plan. Chapter 2 will look at research, and Chapter 3 will deal with elements of the marketing plan, including market area, market share, location, customers, and competition. Chapter 4 will give you some information on methods for selling your product or service, and Chapter 5 on setting your price. Chapters 6, 7 and 8 will provide information on product service considerations, advertising and promotion, and evaluating your plan.

Market Research

For professional researchers, market research has to do with consumer surveys, focus groups and statistical databases. Market research for the business person means something else. It is the collection and evaluation of information about customers and the marketplace more generally, usually on a do-it-yourself basis and through affordable methods.

The purpose of market research for the business person is reducing risk — reducing the chances of making a mistake. It does that by providing information that support better marketing decisions — information such as why people really buy your product, or why they don't.

Market research is generally of two types, primary and secondary. Primary research is what you get directly yourself (firsthand information), while secondary research provides the available statistical and descriptive information, usually gathered by other sources. Secondary research sources of marketing information are of two main types, published material and contacts.

There are many different methods for obtaining both primary and secondary information. These include:

Primary

Questionnaires

Talking to customers

Conducting interviews

Conducting focus groups

Interviewing suppliers

Studying and observing competitors

Talking to distributors, retailers, agents, brokers

Using consultants, advisers, mentors

Hiring students to conduct a survey

Secondary

Published Material

Census reports from Statistics Canada

Trade magazines and journals

Newspaper and clipping services

Libraries and resource centres

Books on the industry

Published reports and studies

Internet sites

Contacts

Industry and trade associations

Chambers of commerce and boards of trade

Local business information centres

Both primary and secondary research sources provide valuable information. Learning how to interpret, evaluate and use information from various sources is a marketing and business challenge. Basic guidelines include using standard and reliable sources, trusting your instincts, analysing the information, and obtaining professional advice when needed. Choose a mix of information sources that best fits your needs. You should always use multiple sources to help ensure that the information collected is valid. See Appendix A for pros and cons of different techniques.

Conducting a Market Survey

A market survey asks questions of possible customers. The answers guide business decisions. Market surveys are used by existing businesses to get ideas from customers about needed improvements, as well as by new businesses to test market reaction to a product or service.

A new business with an untried product should undertake at least one survey before making final decisions — especially on that key decision of whether to go ahead with this business idea. You might want to sell your product on a small scale to gauge customer reaction and satisfaction before you go into full production. Depending on the customer response, your product may need to be improved and test-marketed a number of times before full production begins. The time invested in test-marketing will prove worthwhile.

A Sample Test Survey

1. Take a sample of your product or a description of your services to at least 20 people, preferably potential customers, and the more the better. Don't include people like your mother, brother, sister or best friend. Instead, take the sample to people who will be objective and who won't say things just to make you happy.
2. What are their first reactions? If most of them like the idea or the product, respond positively, and say something like: "Wow, why didn't I think of that?", you are probably on the right track.
3. Interview or survey the people in your sample to get the information you need. *Ask the same questions in the same way to all the people you interview. This makes your survey results more reliable.* Market research questions should be worded precisely so that all respondents interpret the same question similarly. Where possible, questions should be "open-ended" and not "leading" questions. The kinds of questions to ask are:
   - Would you definitely, maybe, or not buy this product/service?
   - Would you be more likely to buy it if something about it was changed? What might make you more likely to buy it?
   - Do you buy something similar to it now? Are you satisfied with it? Do you experience any problems with it?
   - How much do you pay for the comparable product/service now?
   - How much would you pay for this product/service?
   - How many times a year would you buy it?
   - Would you buy this product/service if it were sold in the way being considered (e.g., on a local grocery shelf, at a fair, by mail order)?
4. Ask the people you interview for demographic information — i.e., age range, occupation, marital status, where they live, education and income level — so that later you can complete a profile of your most likely customers.

5. Take all your information and organize it so you can see the general picture. Across each of your questions, you will have a range of information. Add up the number of Yes/No answers. Organize number information (e.g., the price people would pay) from lowest to highest — this is called the range or spread.

You want to know what price you can charge, whether that price will provide a profit, and whether the idea is worth pursuing. Take the spread of answers about how much your possible customers would pay. Drop the top 10 per cent and the bottom 10 per cent and average the rest of the responses. (If you are not sure how to work with percentages and averages, ask someone to help you with your test survey.) This gives a rough idea of what potential customers think your product is worth, as well as a possible price range marked by the lowest and highest prices.

6. Once you have a price range set, you have to figure out total costs of getting the product to the buyer. These include such costs as advertising, warehousing and transportation, administration, interest and salary. Set preferred prices. Compare your complete costs with the information you have gained about the market through your test market survey.

7. At this point, you may decide whether a product or service is worth pursuing any further. If it is, the next steps of the test market survey are worth finishing.

8. You need to determine how many people might buy your product or service — what the sales volume might be. Go back to the responses to the question: "Would you buy this product/service?" Take all of the "definitely" and half of the "maybe" answers, and average these two numbers. A rule of thumb is that if that average figure is over half of the total number of people surveyed, you have a small fighting chance.

   If the number is under 50 per cent, the recommendation is to forget it, at least for that product or service, and for the target market represented in your survey. This may not mean starting again from scratch. Consider whether the group of people you surveyed represents the market that you plan to target. If you have a certain target market in mind, make sure your target market survey is representative of that group.

   You need to use your judgment as to whether the results you obtained are sufficient to give you comfort to proceed. You need to consider many factors, such as your product, the industry and its trends, the sample size of your survey, and the strength of your competitors.

   Doing the kind of test market survey outlined above *will not guarantee success*, but it will tell you if you are on the right track. This survey is an example of a primary source research method in which people are interviewed directly. You will want to support the test market survey results with research from other sources, for example, trade publications.

Because learning to test markets, products and ideas is such an important part of business research and planning, a basic approach to a test market survey is detailed above. This approach doesn't take money, but it does take ingenuity, shoe power, and some courage.

Elements of the Marketing Plan

A marketing plan is your plan of action — who, what, why, where, when, and how much. A written marketing plan is usually not more than 10 pages. Often it is written in point form, presenting basic facts about the business's approach to marketing. The marketing plan includes details on:

- market area — the trading or business area
- market share — a business's share of total sales in a market area
- location — the business's physical base
- customers — the market
- competition — those selling similar goods or services
- methods of selling — ways sales are made
- price — the dollar figure that products or services sell for
- servicing and guarantees — after-sales support
- image — appearances and impressions
- advertising — ways to encourage and increase sales
- promotion — ways to increase market share and sales and to raise profile

This chapter will provide information on the first five elements of the marketing plan: market area, market share, location, customers, and competition. Subsequent chapters will provide information on the remaining elements of the marketing plan.

Market Area

Market area is the area of business operation. Market area can be a building, a neighbourhood, a region, several towns or cities, the province, the country or some international territory. One way to keep the market area clear is to remember it as a geographical area that can be marked on a map. Within the boundaries of a market area, your target markets are those groups of people most likely to become buyers.

Market Share

A market area and your target market within it will support a certain level of sales of a given product or service. The portion of total sales that any one competitor has is called market share. Your potential estimate can be given as the number of sales, the money value of sales, or as a portion of the total market, i.e., market share. Estimating market share isn't easy, but it is worth it. To sell your product or service, you have to know how a market is divided and what share of it you hope to obtain.

Estimating market share involves four main steps as follows:

1. Collect information to help you estimate the total potential market. As a starting point you need to gather information that will help you to estimate your market share. You should start with the following information sources:
   - industry or trade associations
   - industry or trade journals
   - Statistics Canada publications
   - discussions with potential customers
   - discussions with potential suppliers

   You should also identify any major trends (e.g., technological changes) affecting the industry and/or business you wish to start. You need to consider whether the market is growing or shrinking. What changes are occurring in the marketplace and how will they affect your market share? As well, you need to consider legislation relevant to your business.

2. Based on the information you collected in Step 1, estimate the total market in the trading or market area you have chosen.

3. Consider your competitors and how much of the total market each competitor has now.

4. Decide on a figure for your market share. Your goals may be to take part of your competitors' market share, or to develop a different market. Keep those goals in mind when you estimate what portion of the total market your business expects to secure in the first, second and third years of operation.

   For example:

   Assume that the total potential market for your product is $500,000 and that the market is currently being served by five competitors. Based on your knowledge and research, you estimate that your business could generate sales of $50,000. Therefore, your market share is 10 per cent calculated as follows:

$$\frac{50{,}000}{500{,}000 \times 100} = 10$$

It is important to use this information when preparing financial forecasts for your business. The forecasts should be consistent with your estimated market share.

Location

Business location is included in a marketing plan because it affects sales. As the old joke goes: the three most important things in a business are location, location and location. If your location has a direct effect on sales, include an explanation of this in your business plan. Information about location that does not directly affect sales (e.g., zoning bylaws) should go into the operations part of the business plan.

Customers: The Market

A market profile typically uses primary and secondary sources to answer key questions about a potential market. A profile is a picture or an outline. Data that make up the social profiles of the people in your target market is called demographic information and can include:

- age, usually given in a range, e.g., 20–35 years
- sex
- marriage/partner status
- location of household
- family size and description
- income range, e.g., $30,000-$39,999
- education level, usually to last level completed
- occupation
- interests
- purchasing profile (what are consumers known to want?)
- cultural, ethnic background

Demographic information is available from Statistics Canada and other secondary sources, such as libraries or websites. When collecting this information yourself, for example, in a test survey, use the same ranges for categories of age, income and education as you find in Statistics Canada publications.

Within a market area, some people are more likely to buy a business's products or services than others. People who are the most likely to buy, perhaps identified from annual sales of similar products or services (secondary research) or from surveys (primary research) are target markets.

A business that makes clothing may consider a number of possible target markets: toddlers, athletes, grandparents (for grandchildren), teenagers, and tourists. A general profile of each of these possible markets will clarify which ones are realistic, less risky, or more likely to show a profit. A test market survey of the most likely market groups or those who buy for them, such as parents for babies and toddlers, can help you separate real target markets from unlikely possibilities.

Business research and experience once a business is established yield a steady supply of names and addresses of current or potential customers. This information is the key to the demographic profiles that Statistics Canada has already prepared on the basis of census data. This information is organized according to postal codes. Markets tend to cluster — if several customer addresses are in the same area, the census data will be able to tell you a lot about the target market group: size of household, annual earnings, percentage that own their own homes. This use of secondary data is a good way to get a general fix on a target market before investing time and energy on a test market survey.

A demographic profile of the most probable buyers in a market area describes a business's target market. Use this as a guideline: you can't know too much about your customers. When possible, target markets have been narrowed to the most likely, a market profile giving the following information will support the choice.

This market profile outline summarizes the market information that you will want to include in a written business plan:

- To whom are you going to sell?
- What key characteristics of your market support your expectation of sales? These could be known buying patterns, economic trends affecting consumer spending, and consistent demand for a similar product or service.
- Where is the market? What is its geographical distribution? Will this affect transportation costs?
- What is the market size? How many customers are there in the region you plan to market in? What sales of these products or services does the region already support?
- Is the market growing? Changing fast? Stable? At a certain point in a product cycle? All products and services go through a product cycle. This cycle varies depending on the product or service. The stage of the cycle will dictate different communication, pricing and promotional strategies. The four standard cycles are: introduction, market growth, market maturity, and sales decline.
- What is the total value of the market for products or services similar to yours?
- What share of that market or those sales can you expect to get?
- What are the special features or benefits of your product or service?
- What products and services is the market interested in?
- Why is it interested in these goods or services? (Is the demand part of a wider demographic trend, like a "baby boom," or a luxury that is likely to disappear if there is a downturn in the economy?)
- Who makes purchasing decisions (in some cases, this is not the same as the purchaser)?
- What price is the market willing to pay?
- How frequently will the market buy?
- What does competition in the market look like at this time?
- How will you provide the market with information about your products or services?
- In your market information, what will appeal to your target market and make people want to buy?
- What expansion possibilities exist?

Competition

Your competition is businesses that sell similar products or services to the same customers you have selected as target markets. To market any product or service effectively, you need to know your competition and the advantages they offer. Home-based and other small business operators often tend to look at competition solely as a question of price. Yet a competitive advantage can be gained in other ways, such as offering better customer service, a more convenient location, or better parking.

Other marketing supports to gain customers may include warranties, guarantees, accepting debit cards, credit cards or giving customer advice. Crucial to marketing success is keeping the customer in focus.

Take the time to research your competition, with the customer in mind. You can do a competition profile, using industry and trade publications and the *Yellow Pages*, as well as some amateur detective work by including visits to competitors' businesses.

A competition profile tells you where your target customers presently buy similar products or services. It includes:

- names of firms and their locations
- appearance of business sites and layout of operation
- history and number of years competitors have been in business
- similar products or services to yours — source, features and price
- related products or services that the competitor sells
- number of employees
- sales

By studying the competition, you will be able to assess whether you can find a special place in the market that does not necessarily reduce competitors' sales, but expands the market to benefit the whole industry. Finding this special or unique place in the market is called a market niche or positioning your business.

Position refers to the image customers have of your business. The secret is to create a business image that enables you to position your business to act as a natural magnet for your intended customers.

A number of factors that customers often look for include:

- price (i.e., cheapest price, fair price, price for quality)
- assortment
- parking
- service
- sales personnel
- quality
- fashion
- convenience
- location
- atmosphere

Your overall position should emphasize those areas that your customers value most, and those that make you different from your competition.

Methods of Selling

Two main sales methods are direct and indirect. In direct sales, a business sells directly to its customers. This could be door-to-door, selling at trade or craft fairs, or through the mail or a website, among other ways. Indirect sales involve links with retailers, who in turn sell directly to customers; with distributors, who arrange for an item to be distributed in different sales outlets; or with telemarketing or mail-order firms that handle orders and distribution.

The best sales methods for you depend on your product and your customers, among other things. A business specializing in a high-value or technically complex product will be better off selling directly to customers, rather than using a middleman. A distributor who provides display materials or special contacts may make the indirect method of selling the best choice.

Direct Sales

The following are examples of direct-sales methods:

Personal mail

A slow but reasonably successful direct-selling system, which appears to bring positive results, runs as follows:

- Write a personal letter to 10 people every day and explain that you will telephone within the next three weeks.
- Telephone the people you have written after two weeks and offer them two dates and times for a personal visit.
- Make the sales call on the day and time they choose.

Door-to-door

Door-to-door selling is a great way to build a list of customers, if you can overcome your shyness and fear of rejection.

Direct mail

Direct mailing, even targeted to a certain market, is a difficult way to make sales because so many people throw materials away as junk mail without reading them.

Mail order

Mail order has been a traditional way of selling for home-based and other small businesses. The catalogue phenomenon in North America, with steadily more people buying products from specialty mail-order catalogues, is partly due to the trend of people preferring to buy from home. You might consider listing your product in an existing mail order catalogue service. Be sure to figure mailing and shipping costs carefully.

Selling by fax

Many small companies are actively marketing through fax. It is faster than mail and it provides a paper record which a telephone can't. Putting a fax number in newspaper ads can result in a jump in fax-generated sales. As more and more businesses turn to electronic commence, or e-commerce, this form of direct sales is decreasing.

Electronic commence

The newest way to sell products and services is via the Internet. This industry is experiencing significant growth and is expected to keep expanding exponentially in the next few years. E-commence is appealing because it is a user-friendly, time-saving way for consumers to do their shopping. Through a secure server, customers can pay for purchases online with a credit card. This gives the consumer access to world suppliers and the opportunity to find exactly what they are looking for. As well, advertising and selling on the Internet may reduce business costs associated with mail-outs and publications and catalogues, which may simply be thrown away by the consumer as junk mail.

Sales representative

Selling takes special skills. Don't dismiss the idea of hiring a sales representative. This is not just another name for a sales clerk. A sales representative is someone who actively seeks out and makes sales on your behalf.

Any sales representative you hire has to reflect and present the image you want for your business and product or service. Being clear about what you want will make it easier to find someone who fits into your plans. You need to consider how best to compensate sales representatives for their services. Some businesses use straight commission, others use a combination of commission and base salary. Find out what is common practice in the industry in which you operate. Whatever form of compensation you use, be sure to put in place an employment contract that sets a time limit, in order to assess their sales performance.

Shows and fairs

A good way to gain experience is to design a booth or display and sell at trade shows, fairs, malls and flea markets. Most industries hold shows and fairs. Information about them is usually available from trade associations and professional journals. Shows and fairs are good places to assess the competition and to develop a place in the market. Prices at craft shows may be unrealistic because many craftspeople undervalue their products.

Conventions and conferences

An exhibit at a convention or conference gets your name known and generates leads, as much as it makes sales. Attend one yourself as an observer first and notice how things are done. Many exhibits and displays are points of first contact. Customers generally respond positively when you follow up a lead from a convention or conference.

Marketing effectively at large events

To make the most of events such as conferences, conventions, shows and fairs, organize yourself and your exhibit ahead of time. Some things to think about include:

Pre-event:

- How many people are likely to attend the event?
- What other exhibits will be there?
- What materials and samples do you have, what do you expect to need, and how will you handle unanticipated demand?
- How will your display look, how will you set it up, and will parts of it have to be replaced during the event?
- If you plan to sell a product, will display materials be for sale, and how will you store and handle stock displays?
- What comes with the facility and what do you have to bring (tables, curtains or materials, shelves, chairs)?
- Who will work with you, and on what schedule?
- Who will take care of business matters back at the office while you attend the event?
- What product, service or feature will you highlight?
- How will you make sales and record them?
- How will you record leads?
- How much do you plan to spend to take part in the event?

At the event:

- Look at the displays of the other exhibitors to see which displays best draw people to them.
- Give product demonstrations.
- Give people something useful, attractive or memorable to take away.
- Keep up the energy levels of the people working in the exhibit or booth.
- Enjoy yourself.

Post-event:

- How and when will you follow up leads?
- Record and evaluate your sales, contacts and expenses for future reference.
- Arrange future bookings.

Direct/Indirect Methods of Selling

Telemarketing

Selling over the telephone, or telemarketing, can be a direct sales approach when you use the telephone to generate sales, or it can be an indirect method when you subcontract to a telemarketing company to make sales by telephone. The market appears to be saturated for telemarketing, but there is no

harm in trying some low-key telephone calls to find leads. As with other techniques, whether telemarketing is appropriate for you depends on your product or service, your target markets, customer profiles, and the response rate to telemarketing for similar products or services. The estimated response to a telemarketing campaign must justify the costs, which can be high.

Toll-free numbers

When a customer calls a 1-800 number, the cost of the call is paid by the company, not the customer. Obtain information from the telephone company. The average value of orders received by telephone tends to be higher than that received by mail, although the number of orders may be about the same.

Indirect Sales

Retail shelf space

Getting products into stores can be a critical step to success — and one of the most difficult. A product has to be effectively packaged in an eye-catching way and be within the price range for products to outsell stiff competition. Even with all these things going for a product, attracting the attention of buyers and retailers is a challenge, and shelf space may be expensive. The investment may be worth it, though, if your target markets are likely to look for your product in retail stores.

Some ways for a new business to obtain retail shelf space are to offer retailers:

- free merchandise to sell on a trial basis
- sample cases or display units
- goods on consignment
- product demonstrations

Large retail chains

Having a product carried by chain stores is a dream of many new businesses. It is not easy, but neither is it impossible. Use the track record and sales statistics from local marketing. Learn about how the retail marketing system works before trying to get into it. Perhaps most importantly, don't be intimidated. No matter how big the chain may be, you're still going to have to persuade one person that your product is worth buying, just as you have to with smaller, local shops. It may take time to find that person and get a hearing, but once you do, rely on your belief in your product. Make contact with buyers for large retail chains at trade fairs, through industry sources and through direct approaches. When you get a buyer's name, send him or her information and follow up with a telephone call. Explain your call, and ask for a meeting to discuss your product.

Outside marketing company

Using an outside marketing company does not occur to many new home-based and other small business people. Consulting outside marketing experts, even on one aspect of your marketing campaign, can increase your expertise and make you feel more confident about your approach. If your goal is to place a product in retail chain stores, definitely consider getting advice from an outside marketing company. A marketing company with a track record of getting new products into retail chain stores probably has a better chance of reaching that goal than you do working alone.

Price and Pricing

Price is a key part of marketing. Setting prices is called pricing. Before you can understand pricing, you have to be clear about costing. Effective pricing depends on business goals. Do you want to maximize profits, or do you want to go for high growth in sales? In the first case, you may choose to emphasize quality and service on high-priced items for a target market that wants quality and will pay for it. In the second case, you may want to emphasize high production and high sales volume levels, keeping prices low. These two ends of a market — the high end and the low end — may both be part of your marketing strategy, but the ways you use to reach each may be quite different.

Businesses selling a standardized product usually go for growth. They price according to the market, because the markup on each item is low. Specialty consulting and professional services or high-tech firms are more likely to aim for higher profits on each sale, setting a high price to cover research and development and to try to develop a more secure market niche. In high-tech areas particularly, there is no such thing as a "secure" market niche. Competition moves in as quickly as technology changes, so in this field, basing a marketing strategy on volume sales over time just doesn't make sense.

Three main cost areas to consider in pricing are:

- supplies and materials
- overhead
- labour/time

Supplies and materials include all money spent for supplies and materials to make your product or provide your service. This category is called a variable cost, because the amount you spend varies with how much you produce. Shipping and storage charges are often included as part of supplies and materials costs.

Overhead is a name for all fixed costs in a business — business expenses that must be paid, regardless of sales, such as office expenses, insurance and interest payments on loans. Another way of understanding overhead is to think of it as the cost category for all business expenses that are not supplies and materials or labour/time.

Labour/time needs to be assessed as a separate category when determining costs. Labour-related charges should be calculated in two ways: labour/time required in producing the good or providing the service, as well as a salary in the fixed or operating cost (administration, clerical time, etc.) component of your business.

The time required to produce a widget or provide a service is usually underestimated:

- People used to doing an activity as a hobby may not count all the time involved.
- People used to working for someone else may not have full knowledge of how much time a complete job takes.
- People may place a lower value on their own time than what it would cost to hire someone to do the same work. What it would cost you to hire someone to do the same work is called the market value for your time.

For costing and pricing, a business person needs to know the total time required to produce or do something, and to cost this time accurately so it is truly reflected in a final price.

A selling price can be set in different ways, but all involve the same three categories of numbers:

- total cost of production (including supplies and materials, overhead, and time/labour)
- profit or return
- final selling price

Although different methods treat pricing calculation in different ways, the three sets of figures combine as shown in this formula:

total costs of production + profit = final selling price

Prices for products and services can be set in three main ways: pricing to the market, pricing to your costs, and break-even pricing. New business people with little experience may set an initial price based on the market, and then as experience grows, reset prices according to costs. These two aspects of price — what is acceptable to the market and what costs are — must both be considered. The choices that a business makes about its target markets and sales make a big difference in pricing. For example, a business may make an early choice about which of these two market segments to target — the "good value" low end of the market or the "quality conscious" upscale market. In pricing, as in everything else in business, the customer is the reference point.

Pricing to the Market

Pricing to the market carries with it some dangers. These include underpricing in order to compete or make sales. The following pointers are useful:

- Use competitors' prices to establish the price range for similar products or services, but don't underprice. If your true costs are higher, your final prices will be higher. Competitors may have access to lower-priced raw materials, perhaps because of a long-established supplier relationship or volume discounts. If your true costs include certain features or service that competitors don't offer, they are justified business costs and have to be covered in price. Service is a feature that many small businesses choose to compete on since they don't make the volume of sales that allows discounts or special sales terms.

- Check for how competition reacts to your entering a market. Be prepared for prices to change and have a backup plan in place for your own pricing. Pricing means more than setting a price once — it means watching your prices in relation to sales and to the competition in the market and making necessary changes in a timely way.

Prices of competitors for similar products and services set the price range that customers will expect. You can use that market price range — what is acceptable to the market — as a guide to set your prices. Businesses or people to whom you sell may also price to the market by telling you what they will pay for your product or service. As you keep records of actual costs, the cost approach to pricing will help you make sure all your costs are covered, which may not be true in a market approach to pricing.

Cost Approach to Pricing

Price must cover all costs of goods/services sold, including production costs of supplies, materials, fixed overhead, and time/labour, plus a profit.

Common mistakes of small businesses in this area include:

- Costing materials at original prices rather than at the cost of replacing them. Use replacement costs in all financial work.
- Not including salaries. Figure out how much it would cost to hire someone to do what you are doing. That is a business expense. Charge it as a business expense, even if payment to yourself has to be deferred.
- Not including interest your money could have earned if it had been invested, for example, in Canada Savings Bonds, instead of in your business. This loss of potential income is too often not considered as a real cost of doing business. Include it.
- Forgetting to make allowances for refunds, future servicing, amortizing the capital costs of equipment or machinery — including partial repayments of principal, as well as the usual interest charges — and loss because of bad debts. These possible costs are ones that an accountant or a bookkeeper can help you identify and include in business finances.

The following are examples of price setting for manufacturing-based and service-based businesses. Use these examples as guidelines to help you set your product or service price.

Example - Manufacturing-based business

Selling price per unit is equal to the total costs of production per unit plus desired dollar profit per unit. For example, a craft item requires:

Costs of production

• supplies and materials	$7.00
• time/labour 2.25 hours x $7.00/hr =	15.75
• overhead	4.50
Total costs of production	$27.25
Percentage rate of profit desired:	30%

(you need to use the decimal form for this calculation — the decimal form of 30% is 0.30)

The desired dollar profit in this case is 0.30 x $27.25 = $ 8.18

The selling price per unit: $27.25 + $8.18 = $35.43, or $35.45
(rounded up for use in projections)

Example - Service-based business

In many service businesses, you really only have two major costs: labour and overhead. Miscellaneous materials can be included as part of overhead. The first step is to identify all the costs associated with your business. Then determine an hourly or daily rate. For example, a small environmental consulting business would calculate its hourly rate as follows:

Labour Costs

Owner - $40,000/year

Technician - $22,000/year

(Benefits are included in the costs)

Billable Hours

Assume that the owner and technician each have 1,156 billable hours per year.

Overhead

Advertising - $1,500

Rent - $4,800

Office expense - $3,500

Insurance - $1,800

Accounting and legal fees - $2,000

Vehicle expenses - $5,000

Part-time secretary - $12,000

Profit

Assume the owner wishes to make 15% above costs.

The calculation for the price would be as follows:

Labour	$62,000	
Overhead	$30,600	
Sub-total	$92,600	
Profit @ 15%	$13,890	
Total	$106,490	
Billable hours	÷ 2,312	(billable hours of 1,156 x 2)
Hourly rate	$46.06	(say $46.00/hour)

You may also wish to consider charging different employees out at different rates to reflect their experience/training and cost to you. Conversely, you may price different services at different rates to reflect their cost.

Businesses can set different profit rates, for example, 15% profit on supplies and materials, 20% profit on labour/time, and 25% profit on overhead. These more complicated approaches to pricing usually emerge in response to the special needs of a particular business.

If your research shows similar products or services available to the market for much less than you could provide them for, you may have to adjust your profit margin, the return you want, or decide to provide enough specialized service or selection that the market will pay the extra. Alternatively, you may have to decide you cannot afford to make this item or provide this service and look for something else to do.

Readers of your business plan would like to know how your pricing compares with competitors'. Include a small summary or sampling of competitors' prices to show you are being reasonable.

Break-Even Pricing

Break-even pricing runs a risk of underpricing. For example, if your break-even price turns out to be the same as a competitor's price, and you are pricing to the market, your sales will not include any profit/return to you or to the business for growth. Including costs of labour and time, partly as a cost of production and partly as an operating expense (salary), is necessary but does not guarantee a profit. Your business goals are important here. You may decide on a short-term strategy of break-even sales pricing to gain recognition and market share, gradually moving to a cost approach that doesn't just break-even but builds in a return to the business.

Break-even price calculations are only as good as the information you start with. Good business planning and management include learning to trust your business information because you know it's accurate, or you know exactly which figures deserve caution because they are "guesstimates." Many experienced business people call this "trusting your intuition." Business intuition will get stronger with experience.

The break-even sales point for a business occurs when the selling price covers all costs of producing an item or providing a service — with no profit. This third approach to pricing uses a formula — a mathematical recipe — to calculate a selling price. The three numbers needed in the break-even pricing formula are: variable cost per unit, fixed costs, and volume.

Fixed costs: those that must be paid whether or not any units are produced or service provided. Examples include building rent, equipment lease payments, and loan payments.

Variable costs: those costs that vary directly with the number of products produced or service provided. Examples include materials and labour required to produce the product or provide the service, and percentage of overhead.

Volume: measures how much, in this case, how much sales.

The formula for calculating the break-even price is:

$$\frac{(\text{variable cost per unit} \times \text{volume}) + \text{fixed costs}}{\text{volume}}$$

Example:

A business's fixed costs or overhead for a year of planned operation is $20,000. The variable costs per unit sold (supplies and materials category of costs) are $5. The sales volume expected for the first year of operation is 10,000 units.

$$\frac{(\$5 \times 10{,}000) + \$20{,}000}{10{,}000} = \$7 \text{ per unit}$$

Rules of Thumb

Some types of businesses charge prices according to certain "rules of thumb:"

- Price is twice labour plus materials, or twice materials plus labour depending on which is higher.
- Price is materials and labour plus 20% for fixed costs, plus 25% for profits.

Please note: this method is not recommended. Calculating actual costs is the only certain way to ensure your prices cover your costs.

In summary, key elements to consider in setting prices are:

- marketing strategy and your immediate goals
- competitors' prices and the market
- market demand for the product and consumer buying trends
- need to cover costs and provide an adequate profit

Servicing, Guarantees and Image

Servicing and guarantees

As part of your business research, begin to watch and read advertisements more carefully. Watch for the number of times that service is promoted as a selling feature of a business. It may be prompt, friendly, no questions asked, for seven years, etc. Service is a main component of business success. For your marketing plan, questions of servicing include:

- What after-sales support will you offer?
- How does that compare with your competition?

If you want to stress service as a marketing theme, outline in detail what aspects are special and promote them as features.

Guarantees spell out what you promise to replace or repair. They are promises that a business person must live up to. Be sure you build in the costs of returns (e.g., 5%) or after-sales service as part of your variable costs. Then you can cheerfully live up to your guarantees.

A warranty is a special kind of guarantee that usually promises certain standards of performance for a set period of time, for example, promising to replace defective parts for two years.

Image

What business image are you marketing? A business image is affected by many things. Some key ones to think about are:

- the personal style of the owner/operator and other key contacts
- business graphics — logo design, business card, letterhead, packaging, signs, the style of advertising and promotion
- methods of sales, particularly important for some target markets
- telephone use — how calls are answered and messages followed up
- ways people are greeted and served, how well informed salespeople are
- whether interruptions, by people or the telephone, are accepted during a meeting
- whether a place of work is physically separated from the rest of the house and the activities going on there

If you have two different market segments with two different images, seriously consider using two different product or service names. Even if it costs more in terms of name, packaging, pricing, etc., it is essential to keep the market segments separate and not confuse the clients who are looking for different benefits in each segment. For example, sell kitty litter to pet lovers, but sell it for drying flowers in a completely different package with a higher price, and sell it as an oil absorbent in yet another package aimed at a completely different market segment.

Using image in marketing means using a certain image to persuade customers that what you are selling is what they want. Who is your ideal customer? What image will best match that customer's situation, given the profile you developed through research?

Quality control is linked to image. Setting and keeping standards of high quality in your business are essential to success. People appreciate getting value for their money. Be aware of consumer trends.

In the 1980s, the market was concerned about quality; in the 1990s, the trend was for fair price for quality. Even where your market niche may not be aimed at those sectors, the business reality of competition means you have to be concerned about quality.

Shoddy goods, poor service, rudeness, poor customer support, low-quality raw materials, letting something slip by "just this once" — these may seem necessary at a particular time, or in the anxiety of starting a new business, may slide away from your attention. Each slip in quality control has an effect on your long-term chances for success. "Just this once" may be exactly that, but not by choice if you get a reputation for poor standards. Negative advertising is extremely hard to undo.

Advertising, Promotion and Publicity

Advertising, promotion and publicity are often treated as one area of activity for a business. All three activities play a critical role in the success of any business. The selection and the mix of these activities require ongoing evaluation and a thorough tracking of what works and what doesn't work.

New businesses in particular need to become known, which takes money. Research the costs for different advertising and promotion techniques as an ongoing part of business management. Select approaches that make most sense for your situation now, and plan to change strategies as your business becomes established. Include realistic advertising and promotion costs in your expense projections for the first and subsequent years; these costs are necessary to achieve sales.

During the first year, keep track of the responses from different advertising, promotion and publicity techniques. For your second year of operation, concentrate on the ones that work.

Advertising

Some advertising activities include:

Internet ads

The Internet is increasingly a vehicle by which businesses can market their products and services. It is becoming more and more evident that technology is an essential element of communication for business. It is important that your website have a professional image and that information on the site be kept up-to-date.

Display ads in newspapers

If a business's target market can only be reached through mass advertising in newspapers, the costs may be a necessary marketing and business expense. That cost, especially for large display ads, is high. Small ads can be effective too, but keep in mind that less than 15% of the small space is noticed by the typical newspaper reader. Contact the advertising department of newspapers known to be read by your target market for information about rates, opportunities, and readership.

Display ads in trade journals

A business with a new product can draw the attention of retailers through trade journals. In addition to offering display ads, some trade magazines provide free opportunities for new product and business promotion. Write directly to likely trade journals to request a copy of guidelines, opportunities, and rates for paid advertising.

Classified ads in newspapers, trade journals and newsletters

People do read classified ads. These ads aren't costly, relative to display ads, and they may be a good way to get your business known. Consider classifieds in local, regional, provincial or national papers — whichever best reaches your target market.

Direct mail

Direct mail as a method of sales was introduced in Section 4.1 of this guide. Some information is also included here because direct mail is such a familiar form of advertising. Targeted direct mail works; that's why there is so much of it. That's also why there is some saturation and public backlash against junk mail. Only direct mail campaigns that are matched to the audience really work, and increasingly, only "sophisticated" direct mail achieves a high response. In the world of marketing and promotion, a sophisticated campaign can mean three to six separate pieces of direct mail, one after another, with a week to 10 days between each piece. The first could be a letter alerting the customer to what's coming, then a letter of introduction with a "teaser," followed by a flyer, then an information or "tip" sheet, then a direct sales approach, and finally a reminder postcard. If direct mail is one of a series of targeted pieces, people may come to recognize your business name when the next piece of the step-by-step campaign arrives — and remember your business when the time comes to buy such a product or service.

Yellow Pages

If your product or service is mainly being marketed in a local or regional trading area, the *Yellow Pages* of the telephone book may be the best investment. The telephone company provides information about different advertising options in the *Yellow Pages*.

Shoppers and flyers

Shoppers are special localized newspapers that carry advertising for local businesses. Flyers are inserts into area newspapers. Both may have a circulation throughout your trading area.

Promotion

Promotion activities require the imaginative, innovative side of people. Give it your creative best, keeping in mind that underselling is better than overselling. To work for you, all promotion also has to be consistent with your business image. Some examples include:

Specialty advertising

Advertising specialties usually are articles that carry the advertiser's name, address, and advertising message. They include calendars, pencils, pens, paperweights, matchbooks, personalized business gifts, pocket diaries, shopping bags, memo pads, ashtrays, balloons, measuring sticks, key rings, glasses, and many other similar items. Advertising specialties help reinforce previous or future advertising and sales messages.

Trade shows

It has become a common practice for a seller to participate in a trade show, exposition or convention. There are shows for just about every type of product or service, and they are usually a part of an industry's trade association and may be part of the association's annual meeting or convention.

Samples, coupons and premiums

Sampling is a free distribution of an item in an attempt to have the consumer try the product/service, and then continue to buy. This may be done door-to-door, by mail, through demonstrations, or by insertion into packages containing other products. Coupons offer a discount, usually some price reduction, from the next purchase of a product. They can be inserted into magazines, newspapers or other mail. As well, you can offer specials to online customers, specifically to increase the traffic on your website. Premiums are bonus items free with the purchase of another product; the aim is to have the consumer try a new product or a different brand. For example, service stations use glassware, ice scrapers and beach balls to persuade non-customers to buy their brand.

Demonstrations

The in-store and at-the-show promotion of consumer goods is a common example of this type of promotion. It needs to be done at a time and place closely associated with the actual decision to buy (e.g., guest artists at work at a craft fair). This type of promotion is commonly used to market food products.

Contests

Substantial cash or merchandise prizes are offered by firms to attract customers.

Publicity

Opportunities for publicity come in many forms, sometimes only limited by human ingenuity and nerve. While this area generally does not have the same expenses as advertising and promotion, it is not entirely cost-free. It includes the expense of time required to create and submit publicity releases, printing, mailing and other related items.

Testimonial letters

They work because they give credibility. People who are happy with your product or service are one of your best marketing supports. Be sure to keep all such comments and letters. Since customers may not always volunteer these letters, consider asking for them, and always ask customer permission to use testimonial letters.

Free publicity

- Some other areas to consider include:

  - looking for ways to trade your product or service for free advertising or publicity
  - arranging mutual marketing with another product or service, especially one that is used with yours or complements yours
  - responding to issues and current news topics with letters to the editor as an expert or community resource
  - offering free demonstrations or workshops and publicize them on free community bulletin boards and calendars in local newspapers, radio and television

- starting an information file of events held annually (e.g., Secretaries' Week, Father's Day), and plan to write a series of appropriate news releases
- regularly writing and issuing news releases (news releases follow a standard format, which you can find in a library)

Sponsorship

Sometimes sponsorship of a local community event or sporting team can be undertaken for a small cost, relative to the resulting sales that may be generated for your business from name recognition and public relations.

Word of mouth

The best possible publicity is the satisfied comments your customers make to people they know. Provide a good product or service at a fair price and support it after sales are made — the good word will spread. Ask satisfied customers to tell their friends and, where appropriate, ask them for names of people they think would appreciate hearing about your business.

Newsletters

Some businesses produce newsletters for their customers. These are often done in-house and may not be slick publications. Newsletters might include updates on the business, news about the industry, or product and service information. Such newsletters are designed to provide a service to the market and promote loyalty as much as to directly make sales. Advertising in these or writing a short column of useful tips can help get you in touch with a specific market. Depending on your business and your customers, you may want to consider producing a newsletter of your own.

Promotion Strategy

Because promotion is often used as a general term to include all means of getting a product or service known and purchased by customers, a separate promotion strategy is sometimes considered. A promotion strategy answers the following questions and may be included as a separate part of a business plan:

- How will you get word about your product or service out to the people most likely to buy it or those you want to encourage to buy it?
- How will you inform, persuade and influence potential buyers?
- What type of advertising and publicity will you do?
- How and where will your product or service be sold, and why does that encourage customers and sales?
- How will you stimulate people's interest in your product or service and increase their need and demand for it?
- How will you use sales and current customers in positive promotion?

A Marketing Package

Most businesses need a varied marketing package. One piece of information usually isn't enough. Some marketing strategies leave a trail of brochures, business cards, samples, and tip sheets. What you need in your "marketing tool kit" depends on what you're selling and on your customers:

- a catalogue or catalogue sheets
- a book or collection of samples, photographs, and drawings
- product or service information sheets
- testimonial letters or statements from satisfied customers and clients
- business cards
- pamphlets or brochures
- sheets of tips, information about using the product or service
- copies of articles published about the product or service
- outline of a telephone followup in a direct mail campaign
- how-to followup directions for interested contacts
- website

The marketing tool kit or marketing package can be part of the business reference guide. Clear plastic protector envelopes will keep marketing sheets looking professional. A display package may need to be stored in a carrying case or portfolio for protection and transport.

Evaluating Your Marketing Strategy

Having a business plan means you have a basis from which to work. Using a plan to help you manage means regularly referring to it and making changes to keep it current. Evaluating a marketing strategy is an important part of this process. It involves watching how all the different parts of a marketing plan work, and how well they all fit together to support sales.

Being willing to try something different is one way to make sure you don't get stuck with a marketing approach just because it is familiar or the first one you tried. A focus on the market, analysis so you know what works, and persistent willingness to keep trying are all important to marketing and business success. Some specific ways you can evaluate your marketing strategy are:

- Keep track of what is working. Some promotion and advertising carry a sentence like, "Tell them you saw it in the (name of newspaper)." This is how a company tries to track the effectiveness of its marketing dollars. Other ways include coding coupons or brochures and asking customers directly.
- Choose the best places for spending your money. Keep your goals clearly in mind. If you are trying to build a base of customers with a certain profile, choose the methods that are known to work or that you find do work to reach that group.
- Regularly check what marketing costs are being converted into sales. Stop spending money for things that don't convert into sales.
- Budget enough for advertising and promotion. This area of business finance is often underfunded, and one of the first to be cut if money is tight. Keep your customer orientation firmly in mind. Advertising and promotion are necessary for the customer to find out about the business. Advertising and promotion expenses, therefore, are essential business expenses and should only be reduced when absolutely necessary.
- Measure the numbers of "hits" or "visits" to your website. You can also place a comment form on the website to allow customers to send their comments and suggestions to you. You might need to consider changing search engines/webpage locations if the number of visits to your website is fewer than you anticipate in a specified timeframe.

And the last word on marketing . . . nothing succeeds like success. Go with anything legal that works.

Appendix A

Primary Market Research Techniques

Technique	Pros	Cons
Questionnaires	• Consistent and objective • Calculate responses • Additional questionnaires can be prepared if necessary	• Inflexible • Time consuming to prepare, print and calculate responses
Surveys prepared by college or business students	• Inexpensive • Third party • Survey prepared under guidance of program instructor • Many students can carry out a range of data collection	• Priorities and timeframe may not be same as yours • Inexperienced at obtaining information
Informal talks with customers	• Open and revealing responses • Inexpensive • Subjective and non-verbal information • Opportunity to ask unprepared additional questions	• Must prepare key issues in advance • Responses may be vague and contradictory without much thought • Subjective • Time consuming
One-on-one interviews	• Face-to-face discussions • Combines objective and subjective information • Opportunity to obtain additional comments	• Requires preparation time to develop closed and open-ended (probing) questions • Time consuming to arrange appointments • Few people may be willing to be a subject for an inteview

Focus groups (8–12 people)	• In-depth probing • Wide-open responses • Observation of interaction and dynamics of participants	• Requires a professional facilitator • Additional cost of room and observers
Talks with suppliers distributors, agents, and brokers	• Inside knowledge of industry • Knowledge of players, trends and quirks	• Could favour existing dealers • Jaded comments with narrow viewpoint
Study of competitors	• Observe traffic counts, average sale checks and customer patterns • Observations on any market aspect, e.g., location, advertising, pricing • Competition in other communities willing to talk to someone who won't be a threat	• Biased • Unwilling to talk to potential competitor • Travel and long-distance costs
Contact with persons retired from industry	• No axe to grind • Objective and open • Knowledge of industry, its pitfalls and who is succeeding	• Information may be dated • Jaded and tired of business concerns
Guidance of mentor (experienced businessperson from outside industry)	• Objective • Can analyze situation and be frank • OCan assess your capacity, resources and managerial ability • Can advise on strategy and major decisions	• Lacks specific industry knowledge • Not always available on a no-fee basis